Management – Employee Buyouts in Romania. Privatization Process and Ownership Outcomes

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1. Introduction

The ownership of the production facilities by the workers provoked large controversies among economists. Pro- and counterarguments were stated about the relative efficiency of insider-owned enterprises and conventional firms, which are owned by the providers of capital. Also, differences in the behavior of the two types of firms have largely been debated. Privatization in post-socialist countries heated up this topic, since as a result of it, most of the countries applied techniques which resulted in a smaller or larger fraction of firms owned by their employees. Among these countries, Romania has perhaps the largest percentage of insider dominated firms: Management Employee Buyouts (MEBOs) were practically the only relevant privatization method in the first five years of transition, and later, when voucher privatization took place and case-by-case sales gained more space, MEBOs were still applied in a significant number of companies. Moreover, not only the number of companies is large with employee ownership, but in a large fraction of them insiders have majority ownership, many times close to 100 percent. They belong to many industries of the economy and have a wide variety of employment size, ranging from several employees to almost 10,000. Thus, employee ownership is an important factor of Romanian firm performance, and its understanding is of crucial importance, both for theoretical reasons and for policy making.

This paper provides an analysis of insider privatization in Romania, including the discussion of its institutional framework, the outcome of the privatization and the characteristics of firms which undergone MEBO privatization. It also shows the weight of this method in whole outcome of Romanian transfer of ownership, as well as the share of insider dominated firms in the Romanian economy. The analysis starts at the beginning of privatization (1992), and ends in the second part of 2000, thus it covers most of the period of privatization. The data – assembled from several sources – cover almost 90 percent of the corporatized, initially state-owned companies, which is the population of firms entitled to all major privatization techniques.[1] The major strength of the data is the description of these firms' post-privatization ownership structure. No information is provided, however, on secondary sales subsequent to privatization.

The paper concentrates on the MEBO privatization and does not include the analysis of other techniques of privatization which lead to insider ownership: privatization of small outlets or possible individual purchases of shares by insiders. No data is available on these transactions and the peculiarity of the MEBO privatization, which assures the existence of a

[1] The precise description of the data construction can be found in the Appendix of Earle and Telegdy (2001). The selection of firms into (or out of) the privatization process is discussed in the next section.

concentrated ownership structure in the employees hands for the first period after privatization is not satisfied in the case of sale of small outlets or individual purchases. The former can be applied to very small units, while an insider can hardly gather such a fraction of the company's shares to influence firm behavior. On the contrary, firms privatized with the MEBO technique, as I discuss in detail, had to set up the employees' association (Program for Shareholder – Employees, or PAS), which obtained the ownership rights of the firm for the repayment period of the loan received for buying the firm's shares. This ensured the concentration of the ownership of insiders, which may greatly influence the behavior of the firm.

The paper is structured as follows. In the next the organizational set-up of the Romanian privatization process is discussed. Then I turn to the institutional description of the MEBO program. Section three presents the outcome of the program: the number and type of firms under employee ownership and their post-privatization ownership structure. The last section discusses the future of employee ownership in Romania, and concludes.

2. Main Steps of Romanian Privatization. Major Types of Owners

In this section I present the main programs of the Romanian privatization process. It includes the analysis of the organizations which received the ownership rights of the state the task to privatize their portfolio. The selection of firms into the eligible group for privatization is also discussed. The whole discussion shows what an important role insider privatization has in the Romanian privatization process.

Already in 1990, the first year of transition, the first piece of the legal framework regarding state enterprise restructuring was developed. The Law on State Enterprise Reorganization (15/1990) divided the companies into two groups. Companies in the first group, (called "C*ommercial Companies*,") were obliged to commercialize and become either joint-stock, or limited liability companies, with the state as their exclusive owner. In the first seven years these formed the population firms to eligible to privatization. The other group, called "*Regii Autonome*," remained under the authority of branch ministries and were not included in any privatization program by 1997, when the legislation ordered the corporatization and subsequent privatization of the *Regii*.[2]

[2] Emergency Ordinance 30/97 on the reorganization of Regii Autonome, Emergency Ordinance 88/97 on the privatization of enterprises. Even after the removal of legal barriers, significant massive privatization of these companies did not take place.

Those firms were supposed to be reorganized as *Regii Autonome*, which operated in the strategic industries of the economy, such as armament manufacturing or energy production. However, the law was obscure enough to allow the placement of a large number of firms into this category which were not "strategic" at all.[3] As a consequence, firms from construction, trade or tobacco branches were restructured as *Regii*, and not included in the group of firms allowed to become private. The group of Regii was not numerous, but they were quite large on average: according to the Romanian Enterprise Registry, a database containing all firms with more than 3 employees in 1992, *Regii* accounted for 22 percent of state-owned firms' in 1992. Furthermore, they tend to be capital-intensive, accounting for about 47 percent of the total book value of state-owned enterprises (Romanian Development Agency (1997)). Thus, almost half of the initial book value of the state-owned firms was not privatizable in the first seven years of transition, companies which had a chance at least to become private being only those which formed the group of Commercial Companies.

While the control of the *Regii* were kept by the ministries, the ownership rights of the Commercial Companies were delegated to two newly established organizations: the State Ownership Fund (SOF) and one of the five Private Ownership Funds (POFs). The former received 70 percent of each company's shares, while the latter the remaining 30 percent.[4] The SOF was a conventional state holding organization, which was formed in each transitional country. The POFs were established to carry out the voucher privatization, through which 30 percent of the shares of commercial companies were supposed to be distributed among the population.[5] These holdings were aimed to operate on behalf of the adult Romanian citizens, the *de jure* owners of the funds: all of them received a free-of-charge certificate of ownership, which entitled them to control the POFs, and to receive dividends after the certificates, until they were exchanged to shares of the companies. However, *de facto* it was impossible to control the POFs. First, the ownership was totally dispersed and no institution was set up to provide information on their activity. No dividends were distributed during the five years of existence of the POFs, and the board of directors was appointed by the Parliament and the Government.[6]

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[3] "[Regii Autonome] operate within the economy's strategic branches...as well as other fields of activity established by the Government." (Law 15/1990, art. 2). Negrescu (2000) describes the Regii Autonome.

[4] Commercial Companies Privatization Law (58/1991).

[5] Law 15/1990, art. 23.

[6] It is very suggesting that the on the certificates it was not mentioned which POF they belong to. Thus, each Romanian citizen owned a tiny fraction of each POF, which is clearly ludicrous. For a discussion of the POFs' governance see Earle and Sapatoru (1994). Earle and Telegdy (2001) provide an analysis of the POFs' organizational setup.

Practically the only possible utilization of the certificates was their usage in the MEBO privatization as we discuss in detail in the next section. Insiders could receive a part of the POF's shares free-of-charge, in exchange for the certificates. The certificates not used in the MEBO privatization were devaluated substantially in 1995 and could be used together with new coupons to take part in the Mass Privatization Program (MPP).

Voucher privatizations are usually criticized on the basis of having as an outcome a very dispersed ownership structure, which is not suited for efficient corporate governance practices. By it very design, the Romanian resulted in an even more dispersed ownership structure than voucher privatization in general. The law regulating the voucher privatization,[7] banned the emergence of any blockholder. Coupons were nontradable, and the establishment of the financial intermediaries was explicitly. These provisions explicitly prohibited the formation of blockholders, be that individual or institutional. The magnitude of the "mass" privatization was also diminished: only about two-thirds of the commercial companies were included in the program, and in each included company the state retained 40 or 51 percent of the shares for latter direct sales. Another provision that diminished the bulk of shares transferred to private hands was the asymmetric treatment of excess supply and excess demand situations. If in a company the demand for shares was larger, than the amount of privatizable shares, the amount of privatizable shares was divided by the amount demanded, and each citizen received an even smaller fraction of the shares than it would have gotten in case of perfect match. So far one can consider this as some market mechanism: the more demanded shares are more expensive. However, in the case of an exec supply situation this "market" rationale was not followed anymore: each demander received the face value of his or her share, leaving a part of the privatizable shares in state ownership. As a result, the outcome of this program was the partial privatization of the companies, with an extremely dispersed private ownership structure with only one owner in a controlling position: the state.[8]

The last method of privatization applied in Romania were case by case of shares of the company. Although the first law of privatization already stated the importance of this method and named the sales methods (auction, direct negotiation and public offering), only in 1996 started this method gaining significant share in privatization. Between 1996 – 2000 a large

[7] Law on Acceleration of the Privatization Process (55/1995).
[8] Earle and Telegdy (1998) analyze the design and outcome of the MPP in detail.

number of firms became owned by outsiders – domestic or foreign, as a result of case-by-case sales of shares.[9]

In conclusion, essentially all important types of owners are present in the Romanian post-privatization ownership structure. To start with, the SOF, representing the state, has been and it is still an influential owner of many firms. The five POFs' portfolio and name changed after the voucher privatization, but the identity of their real owners is still a big open question: it is sure that the citizens are not among them.[10] Besides these two owners, a complete set of real private owners emerged as a consequence of MEBO, mass privatization and case-by-case sales. MEBOs, being most popular in the first years of transition (1993 – 95) gave space for insiders, through the mass privatization (1995 – 96) a large number of domestic individuals received tiny fractions of ownership. The last method, direct sale of shares was mostly used after the MPP (1996 – 2000). Both domestic and foreign investors obtained the shares of state-owned companies. Thus, practically all possible owners are present in the Romanian firms.

The evolution of the post-privatization ownership structure is shown in Table 1 and Figure 1, where each owner's average yearly share weighed by employment and capital is presented. Weighted by employment, state ownership fall from 100 to 28 percent between 1992 and the middle of 2000. Among private owners, insiders have the largest share (29 percent in 2000:II). The figure also shows that before 1996 it was practically the single significant privatization method.[11] Citizens who received their shares in the MPP, have on average 18 percent, while domestic and foreign outsiders are the least prevalent owners with 14 and 7 percent, respectively. Thus, MEBOs are the most important privatization method not only that this method was used almost exclusively by 1996, but the largest number of employees was transferred by this methods from state into private ownership. The table also shows that capital intensive firms were less likely to be privatized: only 53.1 percent of the book value of state-owned commercial companies was privatized.[12] MEBO privatization transferred only 10 percent of the total capital. In the case of the other types of owners, the employment and capital weighted average privatizations are quite similar.

[9] Earle and Telegdy (2001) discuss the magnitude and emerging ownership structure of case-by case sales in detail.
[10] The shares put in the MPP were partially taken from the POFs which, in exchange received a much smaller amount of the shares remained in the SOF's portfolio after the MPP. For an extensive discussion of this process see Earle and Telegdy (1998).
[11] Already in a pilot privatization program, designed to check various privatization methods, out of the 22 companies finally privatized, 15 were totally and 4 partially privatized by this technique.
[12] Employment and capital weighted averages do not have exactly the same number of firms, but the results are similar to those with completely similar firms.

Insert Figure 1 and Table 1 about here

In the next section I present institutional setting and corporate governance structures of the MEBO privatized firms, followed by the presentation of the outcome of the program.

3. Institutional Setting of Management-Employee Buyouts

A great deal of controversy had taken place about the virtues and disadvantages of insider ownership, and the transformation of centrally planned economies heated up this debate. Supporters of insider ownership argued that profit sharing and participation in decision making has positive effects on firm performance, while researchers opposing ownership of insiders underlined the reluctance of workers to restructure the company, especially to initiate layoffs, one of the harmful methods of restructuring.[13] Most of the writers agree that outsider ownership is superior to insider ownership, especially in large, heterogeneous firms, where decision making of workers can be slow and costly, and workers may find more difficult to obtain funds for investment, than outsider investors.[14] However, direct sales are not feasible for many countries and many firms, the alternative to voucher or insider privatization is continuing state ownership.

It is hard to decide whether Romania was not able to attract investors – both domestic and foreign – or the political will and constraints faced by the government hampered the case-by-case sales of state owned companies. Probably both the small demand for the state-owned companies' shares and political constraints were present, and the outcome is that direct sales were underutilized, especially in the first several years of transition: until 1995 almost exclusively the MEBO method was used, and later this privatization technique did not cease to play an important role in diminishing state ownership, as we discussed at the end of the previous section.

Already the first Law of Privatization (58/1991) guaranteed preferential treatment of insiders in case of public offering and auction (art. 48).[15] More important, the methodological norms of the law extended the preferential treatment over direct negotiations, the method used in most of insider privatizations.[16] The preferential aspect of the program is the credit granted

[13] Bonin, Jones and Putterman (1993) collects the empirical evidence on the behavior of producer cooperatives. Hansmann (1996) discusses the advantages and disadvantages of worker ownership. For a discussion of employee ownership in general and in transitional context see Earle and Estrin (1996).
[14] Kornai (1990, 2000) advocates case-by-case sales and opposes other methods of privatization, such as giveaways to the whole population or the insiders of the company. Boycko, Shleifer and Vishny (1995) express a critique of insider privatization.
[15] When the MEBOs became widespread, another law was issued which regulated explicitly the MEBO privatization (Law 77/1994). Munteanu (1997) described the law in detail.
[16] Government Decision 264/1992, Section 4.

by the SOF for the purchase of the shares, usually with a highly negative real interest rate.[17] The debt can be paid back from the profits and the company is exempted from the profit tax during the repayment period.[18] The favorable purchasing conditions of employees were reserved until present. The later legislation (Emergency Ordinance 88/1997) devoted a section to the procurement of shared by insiders (section 2), which preserves the previous arrangements.

The responsible organization for the repayment of the debt is the Employees' Association (Program for Shareholder-Employees, PAS in Romanian). In order to be eligible to the preferences set in the law, the current management, employees and retired workers whose last workplace was in the company, formed this organization which, besides paying back the loan, took the ownership rights and duties of the company. The functioning of the PAS is not determined by law, except that the board is elected by its members, not the management of the company, as it is in a typical Employee Stock Ownership Plan (ESOP). However, the voting system within the PAS, and the distribution of shares to the members is left to the discretion of the company. Depending on the voting rights, the relative weight of workers and managers in the PAS and their direct shareholding, MEBO privatized companies may take different ownership forms.[19] If the PAS voting structure is one member – one vote, and the PAS owns majority of the shares, the company can be classified as a producer cooperative. If the voting rights in the PAS are distributed according to the shares owned by its members, then the company may be either a managerial buyout (when the management of the company has more shares than the non-managerial employees, or an ESOP, if the workers have majority. A small survey on 101 early MEBOs conducted by the CEU Labor Project show that in reality all these cases are present: producer cooperatives and managerial buyouts have a 20 – 20 percent weight in the sample, while the remaining 60 percent of the firms is worker-owned (Earle and Telegdy (forthcoming)).

Another peculiarity of insider privatizations in Romania are the prevalence of restrictions included in the privatization contract: change of employment, the main activity of the firm and sale of shares is heavily restricted in these firms. This of course, has the consequence of further diminishing the possibility of restructuring, which may consist a greater problem in insider owned firms, relative to traditional enterprises, owned by profit-seeking outsiders. Although no official statistics have been published about the prevalence and

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[17] Interest rates from a small sample of firms ranged from 10 to 25 percent, while the rate of consumer price inflation has been 150 to 250 percent in 1993-94, the time when the privatization contracts were concluded.

[18] Earle and Estrin (1996) analyze the consequences of the debt on the relationship of the state with the company.

length of such restrictions, some sense of their importance can be gleaned from the CEU Labor Project survey. The results, shown in Table 2, indicate a very high incidence – over 90 percent – of employment reductions, changes in the main activity, and asset resale. The average length of the contractual restrictions varies according to type of restriction, with 2.1 years for layoffs, 4.4 for the main activity of the firm, and over 5 years for selling shares.

Insert Table 2 about here

4. Outcomes of MEBO Privatization: Ownership Structure and Types of Firms

This section presents the outcomes of the MEBO privatization, relying on data on the post-privatization ownership structure the surviving population of firms. The difference between the post-privatization insider ownership in Romania and in other countries consists not only in the much larger fraction of firms with insider ownership and the presence of the PAS, the organization which votes for the insiders' shares. In Romania, MEBO privatization involved in many cases the transfer of large ownership stakes to the hands of insiders, which is not common in other countries. Table 3 documents this aspect of the privatization, showing the yearly average and median ownership of insiders, as well as the number of firms with any and majority insider ownership. Indeed, between 1992 and 1995, the average percentage of shares owned by insiders was between 80 – 99 percent, and on the median they owned 100 percent in the first three years, and 95 percent in 1995. The ratio of firms with majority insider ownership is also very high, 78.5 – 99.2 percent. This was the most glorious period for MEBO privatization, both in comparison with other methods (see Table 1) and the magnitude of insider ownership within the firms. The mass privatization (carried out in 1995-96, as I discussed in Section 2), decreased state ownership in many of the companies. This is reflected in Table 3: in 1996 and 97 insider ownership is 40 percent on the median, suggesting that the remaining shares from the MPPs were transferred to insiders. Even in these years, a large fraction of MEBO privatizations involved majority transfers of shares. An exception is the year 1997, when most of the MEBOs were targeted to diminish the state's role in firms with MPP. Out of the 378 firms with insider privatization, 265 involve the transfer of 40 percent of the shares which is the fraction remained after the MPP.[20] At the end of the period, a total of 2,632 firms (35.4 percent of the total population of privatizable firms) were involved in MEBO privatization, and in well over half of them (1,652 or 62.8 percent) insiders receive a majority stake.

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[19] Ben-Ner and Jones (1995) construct a theoretical framework for the classification of employee-owned firms.
[20] As I discuss in Section 2 the state kept 40 or 51 percent in the MPP firms.

Insert Table 3 about here

The next two tables compare the industry and size distribution of insider privatized firms with the population of firms.[21] Table 4 shows the economic branch distribution of insider owned firms and the initial population of the privatizable firms. The two distributions look fairly similar, which implies that MEBO privatization affected all economic industries. Compared to the sample, MEBO firms have the highest weight in constructions (14.3 percent compared to 8.4) and light industry (18.0 instead of 14.3). Only one-third of the MEBO firms belong to services, although this group – being less capital intensive than industries – would be more suitable for insider ownership, at least in this respect.

Insert Table 4 about here

The employment distribution of the MEBO companies is presented in Table 5. Very small firms are underrepresented, while firms above 500 employees have approximately the same weight in the distribution of insider owned firms as in the population. Ceteris paribus, large firms are less suited for this type of ownership, because of possible capital intensity and within a large, possibly heterogeneous group of workers the costs of decision making may be very large. In small firms the argument goes exactly in the opposite direction, thus one would rather expect an overrepresentation of small firms, and an underrepresentation of the large ones.

Insert Table 5 about here

The presence of other types of owners may have an important effect on the behavior of the firm. For example, if not only insiders, but some outsider is present in the firm, this investor may bring in fresh capital in the firm. On the other hand, if the state is a co-owner of the firm, insiders may directly pressurize it to subsidize the firm either for higher wages or for the maintenance of the employment level, and the firm can operate under soft budget constraints.[22] Table 6 presents the number of firms with other owners than insiders, as well as their mean and median percent holdings. Out of the 2,626 firms, almost all (2,222) have some other ownership. The state has very little direct interest in these firms, it is present in only 177, on the median owning only a mere 7 percent of the shares. The POF is more active, having shares in 352 firms, but both the mean and median holding is below 20 percent. The dispersed owners who received their shares in the MPP are the most prevalent types of owners: they are present in more than half of the firms, with a mean ownership of 40 percent.

[21] Here I use the population of firms as a proxy for the initial structure of state-owned privatizable firms.

[22] On the presence of soft budget constraints in state-owned companies and the effect of privatization on it see Boycko, Shleifer and Vishny (1996) or Shleifer (1998).

Domestic and foreign investors are also present in the owners of these firms: 292 of them has some of this ownership, with rather large ownership holdings (21.4 and 33.9 on the median).

Insert Table 6 about here

Finally, I present a comparison of the employment change between 1992 – 2000 of firms with any, majority an no employee ownership. Clearly, the non-MEBO firms suffered the largest drop of employment, having and average loss of workers of 67 percent, as Table 7 shows. Firms with minority MEBO ownership had also a large drop, but much smaller than the previous group: 53 percent. Firms controlled by insiders lost even less employment: on average, their workforce decreased by 47.2 percent. This may be caused by the reluctance of insider owners to decrease the employment of their firm. If most of the workers are also owners, it is easy to imagine that these firms will change employment much slower than other firms: those who make the decision about layoffs, will also support the consequences of their decision. From the information in Table 7 not much can be inferred about the relative success of the firms controlled by different types of owners, but it provides some preliminary evidence that insider owned firms were able to survive and did not loose as much employment as other firms.[23]

Insert Table 7 about here

5. Conclusions: Does Insider Ownership have Future?

This paper analyzed the MEBO privatization in Romania, and found that this privatization methods played an important role in the transformation of state ownership into private. Not only the number of firms which underwent MEBO privatization is large, but the transferred fraction of shares is high, involving majority insider ownership in 63 percent of the firms. Moreover, the design of this privatization technique obliged the firms to form the Employees' Association (PAS), which voted for all the shares of the insiders, at least for the initial period after privatization. The existence of the PAS, and the majority insider privatizations make highly probable that a large fraction of these companies is indeed controlled by its workforce.

For how long will companies under employee ownership exist in Romania? Without careful analysis of appropriate databases this question cannot be answered, but with the current state of knowledge some predictions can be made. Naturally, the number of insider owned firms depends on the entry and exit of such firms, as well as the initial (current) stock

[23] Earle and Telegdy (2002) provide an econometric analysis of the relative performance of firms controlled by different types of owners.

of such firms. With respect to entry, privatization is far from being accomplished and the legislation kept the preferential treatment of insiders. This may supply more insider privatized firms. This process may be amplified by the harsh economic conditions in Romania: employee ownership may be a tempting solution, if the alternative is the shut-down of the firm and unemployment for most of the workers. Firms may exit the insider-owned group in two ways: they either go bankrupt and shut down, or their ownership degenerates in other forms as a consequence of secondary sales. Regarding bankruptcy, the appropriate question would be what is the relative bankruptcy rate of employee owned firms, relative to other types, such as firms with outsider or state ownership. This could shed light on the change in the fraction of employee-owned firms in Romania. I know neither pro-, nor counterarguments for the relative successfulness of employee-owned firms. However, results based on a small sample survey about ownership degeneration are available. According to Earle and Telegdy (forthcoming), a sample of 62 early MEBOs, which had in 1995 an average shareholding of insiders equal to 94.5 percent, decreased this by only 7 percent by the end of 1998. While this result is not necessarily applicable to the whole population of MEBO firms, especially to the later ones, which already had minority insider ownership, it provides some evidence that the change of insider ownership into outsider may be long process in Romania.

Finally, one should keep in mind that in this paper only the MEBO firms were analyzed, but employee ownership could penetrate though other channels, too. For example, in the MPP workers might find it more appealing to "invest" their voucher in their own firm, than in an unknown one. This may increase the current bulk of employee owned firms, although these insider owners do not have any organization behind them to coordinate their actions.

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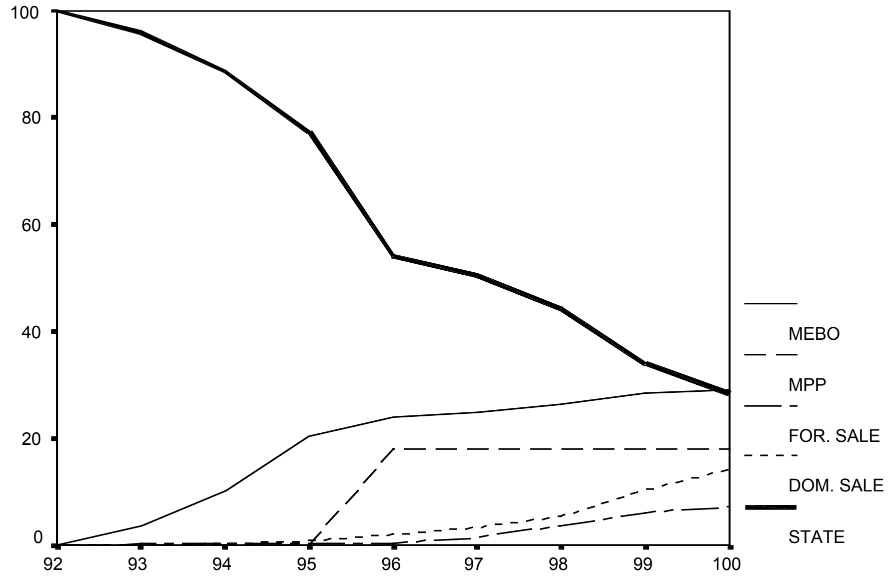
Tables and Figures

Figure 1: Evolution of Post-Privatization Ownership Structure



Source: Labor Project Privatization Data
Notes: Number of firms: 7041. Ownership shares weighted by 1999 employment. State includes SOF and POF.

Table 1: Employment and Capital Privatized

	Type of owner					Percent Priv.	Number of firms
	MEBO participants	MPP participants	Domestic investors	Foreign investors	Others		
Capital	10.1	14.6	15.2	9.0	3.8	52.7	7419
Employment	29.1	17.9	14.2	7.2	3.4	71.7	7041

Source: Labor Project Privatization Data
Note: "Other" = private owners which could not be classified because of lack of information.

Table 2: Contractual Restrictions in MEBOs Privatized in 1993-1994

Type of restriction	Percent of firms	Average length of restriction (years)
Layoffs	96.0	2.1
Main activity	91.1	4.4
Sale price of assets	95.0	5.2

Source: CEU Labor Project survey of 1993-94 MEBOs.
Number of firms: 101

Table 3: Yearly Privatizations

	1992	1993	1994	1995	1996	1997	1998	1999	2000:II	Total
Number of firms	19	249	565	479	509	378	267	336	46	2632
Mean percent priv.	87.5	98.9	97.1	79.8	43.7	37.3	49.0	57.3	57.5	70.8
Median percent priv.	100.0	100.0	100.0	95.0	40.0	40.0	42.0	52.0	66.0	73.0
Percent of firms majority priv.	84.2	99.2	97.9	78.5	22.2	5.6	39.3	54.5	58.7	62.8

Source: Labor Project Privatization Data

Table 4: Distribution of Firms by Industry:
MEBO Privatizations and Population

	Firms with insider ownership			Population of firms	
	Number of firms	Percent of firms	Percent of firms maj. insider	Number of firms	Percent of firms
Agriculture	604	23.0	28.6	1644	22.1
INDUSTRY, of which	763	29.0	69.1	2058	27.7
Extraction, energy	25	0.9	68.0	115	1.6
Light industry	472	18.0	71.8	1065	14.3
Heavy industry	266	10.1	64.3	878	11.8
CONSTRUCTION	376	14.3	72.6	626	8.4
SERVICES, of which	889	33.7	76.4	3112	41.8
Trade	427	16.2	76.6	1624	21.8
Transportation	177	6.7	74.0	595	8.0
Other services	285	10.9	77.5	893	12.0
Total	2632	100.0	62.8	7440	100.0

Source: Labor Project Privatization Data

Table 5: Distribution of Firms by Employment Size:
MEBO Privatizations and Population

	Firms with insider ownership			Population of firms	
	Number of firms	Percent of firms	Percent of firms maj. insider	Number of firms	Percent of firms
20 or less	572	21.8	49.7	2614	36.9
21 – 100	983	37.4	64.4	2132	30.1
101 – 500	788	30.0	68.5	1668	23.6
Over 500	283	10.8	67.1	666	9.4
Total	2626	100.0	62.7	7080	100.0

Source: Labor Project Privatization Data

Table 6: Other Owners of MEBO firms

Second owners	Mean percent	Median percent	Number of firms
SOF	13.6	7.0	177
POF	19.9	17.7	352
MPP participants	40.4	47.3	1394
Domestic investors	27.6	21.4	279
Foreign investors	40.2	33.9	13

Source: Labor Project Privatization Data
Number of firms: 2222

Table 7: Employment Growth, MEBO Privatizations and Population

	Mean emp. change, 1992-00	Median emp. change 1992-00	Number of firms
Without MEBO	-67.0	-76.6	2,202
With minority MEBO	-53.0	-68.1	627
Majority MEBO	-47.2	-58.2	1,219

Source: Labor Project Privatization Data
Employment change defined as (emp2000 – emp1992)/emp1992.